

JUNE 1953

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# business review

 MONEY BANKING  
 CREDIT FINANCE

FEDERAL

RESERVE BANK

PHILADELPHIA



## UNIFORM COMMERCIAL CODE—A SUPPLEMENT

A major step in evolution of commercial practices substitutes "security interest" for chattel mortgages, factor's liens, etc.

## HUMAN ASPECTS OF BANK OPERATIONS

Banking is a unique form of business enterprise in many respects and is operated by people and for people.

## LENDING IN THE THIRD DISTRICT

Expansion was greater in the early months of 1953 than a year ago and was chiefly in business loans and consumer instalment paper. The composition of loan portfolios varies considerably.

## CURRENT TRENDS

Some firms plan still higher outlays for plant and equipment.

# HUMAN ASPECTS

# OF BANK OPERATIONS



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*Transcription of an address given at the Bank Operations Clinic of the Pennsylvania Bankers Association and Wharton School of Finance and Commerce, University of Pennsylvania, January 29-30, 1953, Philadelphia, Pennsylvania.*

I think I should start by saying that I found this a difficult assignment—difficult because of the nature of the topic. It is extremely difficult to say anything that is fresh, new, and stimulating about human relations.

I do not want to pontificate nor expand the obvious to you men who are on the firing line, so I am going to fall back on my academic background, which incidentally I find hard to get away from—especially in this hall—and take a broad approach to the problem. I am going to use what might be called the speculative, the impressionistic mood; because although the topic is a difficult one, it needs to be explored.

In a very real sense, the human family is on the move; it is almost stampeding—head down, tail up, off into the wind. Where we are going to come up, we don't know. It is world-wide in scope, this social flux that we are now experiencing. Any one of the sixty-five so-called sovereign powers may be taken as an example of the disruption of social customs of long standing, of

the fact that we are turning about in our relationships one to the other.

And America has not escaped. Hal Stonier gave a talk recently on the occasion of the celebration of his twenty-fifth year as head of the staff of the American Bankers Association. He said that, to him, the most important development in banking in the last quarter century has been the bringing of banking to the masses. I cite this at the outset to indicate that even a field we think is not subject to great change is, in the judgment of a competent observer, on the move.

The workers are on the move. In the last twenty years, the number of men belonging to trade unions has expanded from three million to sixteen million, and conditions of employment, including hours of work and wages and fringe benefits, are determined industry-wide where collective bargaining prevails. We have witnessed in this country, as elsewhere, a zeal for social justice that brought in the New Deal and kept it in for twenty years. It has brought inflation and intense economic activity which added twenty million to the gainfully employed in the country, and those wage-earners, in turn, have become bank depositors and users of bank services.

### Changing relationships in banking

Yes, Mr. Stonier is correct that banking has undergone great change. What are some of the human implications? I take it that this is the theme in which I, although painting with a broad brush, can be as helpful in exploring as any.

I shall divide what I have to say into a discussion of two sets of human relationships. Every bank has them. One is the relationships of the bank with people outside your bank—borrowers, other depositors, public authorities, the general public. Another set has to do with the people inside the bank—your directors, your officers, your other employees.

Let us take a look at the external relationships first. I hold that a bank is a peculiar type of business enterprise. There are only a few more than 14,000 in the entire country. There are four million other business enterprises in the United States. Wherein do these 14,000 differ from the ordinary businesses? They have a set of special attributes. Banks and bankers are dealers in money. What is peculiar about that? Money is unlike almost any other commodity or service in which any of these four million enterprises are dealing. Everybody wants money. Everybody needs money. Everybody uses money. Many people worship money. We have an attitude toward money, as an economic device, as a measure of value, as a medium of exchange—to use some of the phrases that appear in the textbooks—that is unlike the attitude we take toward other goods and services.

### How others look at banks

Money connotes power, social prestige, security, status, leisure. You translate money into what you can do with it, and you have some of the connotations of the product. Not that these are

accurate. That is unimportant for the purposes of the moment. If people think these things, they become important.

These attitudes have psychological end-products. Many people—more, I suspect, than we imagine—look upon banks with awe, with esteem, with uneasiness, with aloofness, with envy, even with hatred. It is easy to caricature banks and bankers.

Yesterday afternoon a banker came to my office and we were discussing defalcations. He mentioned conversations he had had concerning defalcations. He said he was struck with the fact that there was little, if any, consideration given in all the conversations he had had with others to the bank as an institution, as a profit-making venture. They talked about many, many aspects of defalcations—accounting aspects, criminal aspects, adequacy of compensation—but the bank, as a bank, did not enter into it much.

I recall, some years ago, reading an article in the *Saturday Review of Literature*\* by Philip Wylie, a nationally known writer. That article was entitled, "All I Know About Banks." I want to read a couple of sentences of this caricature. But bear in mind, this appeared in a nationally circulated magazine:

There are some people who when they enter banks even to cash their own checks or to make deposits in their own accounts experience malaise. [A fifty-cent word meaning uneasy feeling bordering on sickness.] It is a sentiment of not being wanted, of having entered the church of somebody else against the will of its parishioners, for even of being engaged in a shady enterprise which may lead to trouble with the law . . .

There is something about banks. For one thing, banks, of all semi-public buildings,

\* July 28, 1945.

most closely resemble penitentiaries. They are barred with saw-resistant steel, like prisons. Uniformed men carrying ostentatious weapons stand about the premises. Cashiers and various other functionaries operate cautiously from behind bullpens. In banks, one is always aware of secret electrical devices on the qui vive. The false move of a customer—a look in the wrong direction or a too quick snatch of a handkerchief—may set alarms clangoring, whistles blowing, guards shooting, as in the case of escaped convicts. These are prison attributes. And even though it is only money that has been incarcerated with such solemn ferocity, persons like myself, aware that the money belongs to us, suffer from a sense of at least partial imprisonment of ourselves.

Again, banks reveal to me that I have been identified with the marauding classes. This rouses an animal instinct, a fraction of the Old Fear. And I took a long time to put my finger on the symbology of it. One apprehensive morning, I entered a bank divided into a multitude of brass-barred compartments, and I realized that the place resembled not merely a prison but also a zoo. However, the cashiers, and cashierettes (a word I give to forward-looking banks) were not resisting confinement with the loud rage of lions, the life-long plodding of bears, or the sad, perpetual trot of foxes. They were, I realized, quite calm on their side of the bars. It was I, with my properly endorsed check and my correctly filled-in deposit slip, who felt caged.

Well, he goes on for two pages and a half in that vein. It's a caricature; but it's not an isolated case.

### **Unique attributes of banks**

So I would put as the first special attribute of the bank that it sets up attitudes of mind and psychological reactions on the part of the people who deal with it, because of the commodity they handle—money.

The second special attribute of relations with the public is that banks are specially hedged about by laws and regulations more than almost any other business, in part because they are handling other people's money and because of the peculiarities of money that I have previously mentioned.

I would list as the third special attribute the fact that banks are constantly being examined from the outside by the Comptroller of the Currency, the Federal Reserve examiners, the FDIC examiners, the state Department of Banking examiners, etc. This makes for an attitude of mind that tends, in my judgment, to make bankers just a little different from the ordinary operators of business enterprises.

There is another aspect, and that is that credit is negotiated. There is no price tag involved. I can go into a clothing store and determine whether I want the suit or not. Credit, on the other hand, is not purchased. It's a matter of negotiation. And very frequently the borrowers come as suppliants, asking for something and, usually, optimistic—and perhaps overly optimistic.

### **How banking affects bankers and the public**

What are some of the effects of banking as thus characterized? First, John Doe, representing the public, thinks the banker is a powerful fellow, and he stands in awe of power. Secondly, the banker is a powerful fellow. He grants or declines credit. In doing this, the banker is a

developer of managerial talent for the free-enterprise system in a very real sense because, daily, there are hundreds of thousands of transactions involving credit that screen the good user of credit from the man who cannot use credit to good effect and, therefore, is denied it. That has the effect of snubbing the growth of one enterprise and stimulating the growth of another.

A third attribute is that the banker is conservative—and he has to be, as you well know. Andrew Carnegie laid down a business dictum in this State in the early days. It was to this effect: pioneering doesn't pay. Andy's point was that there is a time in the development of an enterprise, after the costs and mistakes of pioneering are past, when you can go in and take over and make more than if you had been in it at an earlier stage. This certainly is true in banking—that pioneering doesn't pay. Bankers have been publicly accused of being against new developments. The caution of the trade is warranted because of the experience of the trade. The customary business dynamism that characterizes American business, especially as contrasted with European business, for example, tends to be subdued or absent when it comes to banking.

A fourth characteristic is the tendency that may exist after long years of service in the profession to assume that the power inherent in the occupation really is in the individual occupying the chair. The power really belongs not to the banker, but to the chair that he occupies as a banker; it belongs to the institution.

Out of this comes a tendency on the part of John Q. Public to side with the little man in life; and John Q. Public fancies, rightly or wrongly, that bankers are rich, they are powerful, they are cold, they are legalistic, they are grasping. Hence, the position of the banker in

the jokes—"nobody loves a banker," the story of lynching a white woman because she married a banker, and that sort of thing.

### **Economic and social changes**

Well, this, gentlemen, in my opinion is passing away. When one looks at it historically and when I go over some of the material that has appeared over these past twenty-five years that Hal Stonier talks about, I come to the conclusion that the changes that have occurred in banking are related to the changes that have occurred out on the social and the economic fronts.

What has happened in the last twenty-five years? The Great Depression, the New Deal, World War II, the Post-War Boom, Korea. The boom attendant to that, which has brought in, as I said, millions of new workers, changed the nature of the physical quarters in which we live, changed our modes of transportation, changed our habits with regard to savings, with regard to purchasing, has meant full employment and a high level of production. In fact, we have on our books the Employment Act of 1946, which makes it the studied policy of the United States to have the economy working at full strength, a law which in my judgment we could well re-examine in the light of subsequent experience.

Increase in consumption, increase in consumer credit, increase in the money supply, increase in savings—you men can measure this in your own institution in terms of demand deposits, commercial loans, consumer loans, time deposits, investments, and so on. It has brought banking from a class to a mass production—to use a phrase of Mooney, one of the financial editors of *The New York Times*. And it has humanized banking. In many aspects, we are thinking in terms of the little fellow, because of the general psychology and these economic and social conditions that I

have just discussed. There is abundant evidence in such developments as special checking accounts; all of the activity in consumer credit; the shift in banking hours; the change in the physical surroundings; removing the grille work that gave the connotation of a prison; the carpeting; the rest rooms; the dressing of some of the members of the bank's staff so they will look like Western cowboys; branch banking, new habits in the collection of checks; the rapidly growing volume of checks; public service such as assisting Community Chest drives and 4-H Clubs. Someone has said, psychologically, this goes back to A. P. Giannini, who brought the policies of a produce merchant to banking and demonstrated their success.

#### **Opportunities in human relations**

What is ahead for us in terms of integrating banking more fully into the life of the community? I think that one of the things that may well be ahead of us is group cooperation in carrying the message of banking to the general public. You can picture your own county as illustrative. What type of advertising do your banks, for the most part, do? Probably the traditional type: a listing of the members of the boards of directors, a listing of the balance sheet—such ads are not of great interest, especially to the masses.

In my judgment there is a great field open if you would cooperate to tell the human story of banking to the American public through the medium of the newspaper, the radio and television. If the banks in your county were so minded, they could, with relatively small cost to themselves, take a page in the area newspapers and in a series of human-interest stories, of the sort that we get when A. T. & T. tells us of the activities of linemen during a recent storm, tell

the message of the service of banking in terms of cases to the citizens of your county.

Someone has said, "The battle is on for men's minds." In this great, titanic struggle between the Western free people and the Communistic people, one could tell the human-interest stories of the relationship of competitive, independent banking, of the free, competitive economy which this country with its business civilization depends upon, in such a way as to cause the people of that county to read it.

I suspect that we shall be experimenting with changes in the structure of banking. And here I speak as a private individual—if it is possible to speak as an individual when one is head of the Federal Reserve Bank of Philadelphia. I have been impressed, as one who spent twenty-five years in the Wharton School of Finance and Commerce, in going around the District and comparing individual banks with the size of factories, branch department stores, supermarkets, and other enterprises in the smaller municipalities, that the banking structure has not kept pace with the growth of its neighbors whom it is expected to serve. Additional services at costs commensurate to their value, expanded investment portfolios, increased personnel at adequate salaries and with specialized training made possible by such structural banking changes would enable banks to grow with their community enterprises and render the services intended by their original organization.

Now, how do we experiment? In part, it is up to the state authorities; in part, it is up to the Federal authorities; in part, it is up to the banks themselves. Modes of transportation have changed, so it is possible in any county to get around the area quickly. It is possible to go out and collect and to distribute funds readily. There are all sorts of possibilities for a change in the

structure of banking that will bring banking more closely into the lives, more adequately into the lives, of the citizens. Banking is as pervasive almost as telephoning. I think that without any preconception I am justified in saying that there is room here for bankers to take a clear glance, with a fresh eye, at the profession.

### **Inside the organization**

I turn to the second set of human relations—the internal ones. Here, again, a bank is not an ordinary business enterprise; there are some unusual differences. Gentlemen, I may be on thin ice in what I am about to say. But I know you wish me to be frank, and I say it in order that you may test my observations against your own judgment. Banking is one of the few fields—offhand, I would say it is the only field I know about—where the top man can run the enterprise as a side issue with some other business. Too frequently, there is an assumption that there is little need for well-paid technical competence in the making of top decisions, that bank operation can be the by-product of running a hardware store, or handling a local practice of medicine, or what-have-you.

On numerous occasions, businessmen—directors of banks—have commented on the change in psychology, the change in attitude of mind, that comes when they leave their business and go over to the bank for a bank meeting. When they assemble as bank directors many of the attributes of mind that characterize those individuals in the conduct of their own businesses are left behind, due perhaps in part to the psychology I referred to regarding the banking business and bankers. Managing a bank is not a side issue, gentlemen, in the year 1953. I will re-phrase that statement: It ought not to be a side issue.

Now that we have full employment, large purchasing power, and rising standards of living, businesses can move into an area from the outside and provide services that could be performed as well or better by local business. I suspect that Thomas Jefferson's statement, "That government is best which begins closest to home," has a measure of truth in it for business. In terms of the lives of individuals, that business is best which is developed locally. Banking ought to do its best to be the focal point for the development of those economic opportunities.

### **Compensation and personnel**

That brings us to some of the implications. I am thinking in terms of attracting, retaining, and compensating local man-power. I would prefer here to quote. This is what Bob Haines says. He is the President of the Wachovia Bank and Trust Company down in Winston-Salem.

We are not attracting to banking the type of young men we need in sufficient numbers to meet our personnel requirements. One reason has been the slowness of too many banks to adjust salary schedules to meet competition. Another has been the failure to adopt personnel policy which modern business has found essential to attract the right kind of people.

No worthwhile young man will start in a bank where he has to wait for three or four layers above him to die before he can get a real promotion. Nor will he work for a bank for less than he can earn in industry, although many banks still seem to believe he will. Public opinion surveys indicate that banking is not regarded by many people as a business that offers good opportunities for young people.

That is corroborated by our experience. The

banker to whom I talked yesterday afternoon spoke of a conversation with an elderly banker, who felt that one of his able young men—in fact the ablest in the bank—married, two children, thirty-three years of age, was pressing his case for an increase in pay too vigorously. He was getting about \$3,500. Young college men, without any experience, are today being employed by American big business at \$3,600 as a starting wage.

If banking cannot pay adequate salaries, because of inadequate earnings, income has to be increased. The nature of the service rendered by banking, the role of credit in a dynamic, expanding economy is so great that we can ill afford to take attitudes of mind that will not bring first-class brains into the field.

From an 80 per cent sample of the banks of the District, it would seem that there are about 280 women officers and directors. We had 150 women officers and directors down at our place in three groups. Opportunities for women were expanding rapidly and one could get just as much for the salary dollar on the distaff side of the house as on the male side.

### **Managerial leadership**

I was interested to hear Crawford Greenewalt, President of duPont, talk to the Chamber of Commerce meeting. His company is one that specializes in science and technology, in the physical rather than the human aspects of economics. Here are some of his comments:

The real lesson of the past [and he is speaking now of initiative in a changing world] is that the raw material for all progress is people, not things. [He goes on to amplify that, and says] In my opinion, the most important problem facing business today is that of insuring a calibre of man-

agerial leadership that will measure up to the tasks ahead. . . . The need for competent people is increasing by leaps and bounds as our population grows and as the number of our joint ventures increases. It is a never-ending game of hide-and-seek, this question of finding competent leadership for government, for education, for the Army, for the arts, and for business and industry. . . .

As those of us in the present ranks of business management look ahead, we can see that the future of our company, and of business generally, must depend importantly upon the calibre of those who shall follow us, ten, twenty-five, fifty years hence.

We are concerned, and vitally so, with the continuity of our enterprises, and as such we must seek out and compete for our share of able, talented young people, competing against those of other fields, if you please, that have other attractions to offer. It is our responsibility to bring in as large a crop of promising material as we can, and to provide an environment in which leaders of the future can mature.

And I take it that would apply especially to banking.

I have played with the idea that the next great phase of management in American business will be markedly different from the past ones. Right after the Civil War for forty years we had the phase of blood-and-iron captains of industry and railroad tycoons whose policy was, "When you see a head, hit it." From 1900 to 1935 we moved out of that over into a phase of scientific management—the rational engineering approach. Since then we have had fifteen years of management by negotiation.

My question is: Can we have a period of democratic management in which all the mem-

bers of the team are brought into play, and where you get an organic unity of the individuals within the enterprise, with opportunities for all?

Some say that there are not enough opportunities in banks. We could well have a policy of "up or out." If there is no opportunity for a young, able man within the bank, it would be to the great credit and advantage of the bank to

see that he was placed after training in a business in that territory.

These are two sets of human relationships that appear to me to be worth discussing. I apologize if I have been dogmatic and over-emphatic. If so, it was for purposes of emphasis; my only desire has been to put before you my own thoughts for your stimulus.

## BANK LENDING IN THE THIRD DISTRICT

Loans of member banks in the Third Federal Reserve District have risen to record levels in recent months. Through April 20, the figures show an increase of \$98 million this year to \$2,861 million. This increase, while short of that reported two years ago, was more than twice as large as in the early months of 1952. Growth percentagewise, as well as in dollars, was greater at country banks than at the reserve city institutions in Philadelphia. Business loans

and consumer instalment paper contributed most to over-all dollar expansion.

Since March 31 last year, a period of nearly thirteen months, the increase in loans has amounted to \$345 million or about 14 per cent. The story over this longer term in certain respects was much the same as in recent months. Increases were concentrated in the business and consumer instalment categories, but included also a substantial amount of real estate loans.

MEMBER BANK LOANS Third F. R. District (Dollar Amounts In Millions)	Outstanding			Changes since			
	Apr. 20, 1953*	Dec. 31, 1952	Mar. 31, 1952	Dec. 31, 1952		Mar. 31, 1952	
				\$	%	\$	%
Classification:							
Business .....	\$1,259	\$1,218	\$1,130	+\$41	+ 3%	+\$129	+11%
Security .....	76	78	58	- 2	- 3	+ 18	+31
Real estate .....	778	773	701	+ 5	+ 1	+ 77	+11
Other loans to individuals—							
Consumer instalment .....	474	436	343	+ 38	+ 9	+ 131	+38
Single-payment .....	241	237	220	+ 4	+ 2	+ 21	+10
To banks .....	3	1	23	+ 2	+200	- 20	-87
Other loans .....	78	67	82	+ 11	+ 16	- 4	- 5
LOANS, GROSS .....	\$2,909	\$2,810	\$2,557	+\$99	+ 4%	+\$352	+14%
Less reserves .....	48	47	41	+ 1	+ 2%	+ 7	+17
LOANS, NET .....	\$2,861	\$2,763	\$2,516	+\$98	+ 4%	+\$345	+14%

\*Preliminary tabulation.

Nearly half of the addition to consumer installment credit was in automobile paper.

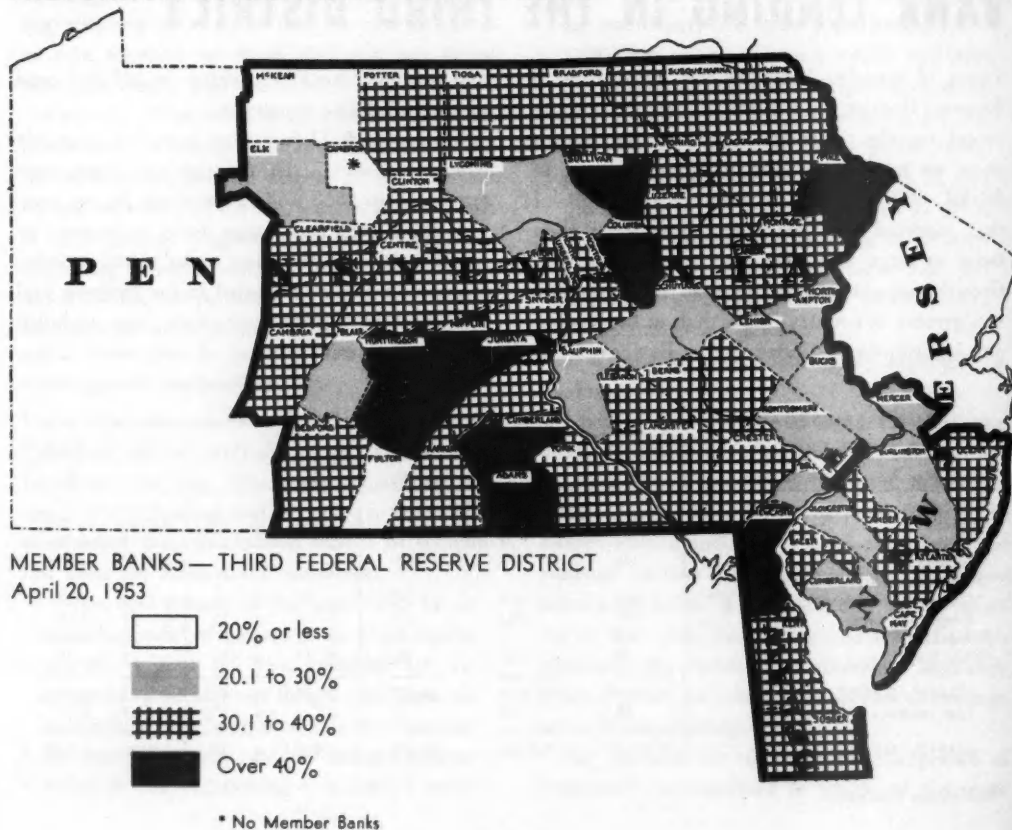
### Regional differences in loan portfolios

In mid-1946, less than a year after the close of World War II, Government securities were the major earning asset and loans were only 15 per cent of the total assets of member banks in this District. The picture has changed materially. On April 20 this year loans were 35 per cent of assets and the principal source of income. The

proportion ranged from 30 to 40 per cent in slightly more than half of the sixty counties of the District, exceeded 40 per cent in ten counties, including several in the south central section of Pennsylvania, and was below 20 per cent in only two counties.

The extent to which banks lend rather than invest and the composition of their loan portfolios depend on many factors. Individual bank management policy is one; others include loan demand, the nature of the community served

### PROPORTION OF LOANS TO TOTAL ASSETS



MEMBER BANK LOANS April 20, 1953 Third Fed. Res. District	Per cent of total loans*		
	Business loans	Real estate loans	Consumer inst. paper
<b>Pennsylvania counties</b>			
Adams .....	31.3%	50.9%	5.2%
Bedford .....	26.8	39.9	20.4
Berks .....	40.3	38.0	10.3
Blair .....	29.3	39.7	22.7
Bradford .....	33.3	45.5	11.2
Bucks .....	26.9	49.5	13.6
Cambria .....	19.5	51.5	21.2
Carbon .....	7.8	69.6	11.2
Centre .....	21.2	57.0	14.2
Chester .....	27.2	56.8	7.7
Clearfield .....	18.6	53.6	22.4
Clinton .....	19.6	53.8	8.6
Columbia .....	21.9	54.8	15.8
Cumberland .....	21.8	46.7	20.5
Dauphin .....	37.1	41.9	7.9
Delaware .....	19.4	52.0	18.4
Elk .....	16.7	68.4	6.5
Franklin .....	33.5	48.8	10.5
Huntingdon .....	30.6	43.5	13.1
Juniata .....	33.1	38.5	11.4
Lackawanna .....	25.4	36.5	23.6
Lancaster .....	40.1	41.5	9.5
Lebanon .....	24.7	54.6	16.0
Lehigh .....	27.2	50.0	11.3
Luzerne .....	29.9	48.4	14.2
Lycoming .....	26.2	47.0	17.4
McKean .....	42.4	39.7	13.2
Mifflin .....	27.1	41.4	14.3
Montgomery .....	28.2	47.5	15.0
Northampton .....	16.1	65.5	11.5
Northumberland .....	25.8	54.2	14.4
Perry .....	19.2	62.0	7.8
Philadelphia .....	59.8	4.7	18.6
Potter .....	24.5	42.2	14.2
Schuylkill .....	14.6	61.0	18.5
Snyder .....	16.5	60.1	10.7
Susquehanna .....	34.0	46.9	13.1
Tioga .....	25.4	44.5	16.3
Wayne .....	17.3	68.9	11.3
Wyoming .....	30.2	47.3	17.5
York .....	26.2	49.7	12.4
Other Penna. counties†	19.1	59.8	9.0
<b>New Jersey counties</b>			
Atlantic .....	27.5	45.9	22.8
Burlington .....	24.4	50.1	13.2
Camden .....	29.0	36.0	20.2
Cape May .....	31.4	36.4	18.3
Cumberland .....	49.8	24.9	23.4
Gloucester .....	27.3	48.3	11.1
Mercer .....	27.2	48.7	13.3
Ocean .....	28.5	58.1	9.6
Salem .....	33.2	30.8	20.5
<b>Delaware counties</b>			
Kent .....	19.2	64.1	9.8
New Castle .....	38.2	28.0	12.6
Sussex .....	32.9	58.2	6.3
All member banks...	43.3%	26.7%	16.3%

\*Based on dollar totals for each county.

†Six counties—Fulton, Monroe, Montour, Pike, Sullivan, and Union—where number of member banks is small.

and the habits of its people, and competition from other lending agencies. In Philadelphia, business loans are the principal component of loan portfolios and real estate loans are relatively small. In most other counties of the District loans on real estate are the largest single group. One-sixth of the District's loan total is in consumer instalment paper, with a range from 5 to 23 per cent in individual counties. The details by counties given on this page are based on dollar aggregates for member banks in these areas.

#### Valuation reserves on loans

With steady growth in loan portfolios, many banks have been accumulating reserves for bad debt losses or other valuation reserves specifically applicable to loans. For all member banks in the District, the ratio of valuation reserves to total loans was 1.6 per cent on April 20. Reports show that 344 of the 618 members had such reserves. The practice was general at medium- and large-sized banks, but in the smallest size groups (as measured by loan volume) it was the exception rather than the rule. While proportions of such reserves to total loans in many instances were quite small, nearly one-third of the banks carrying these reserves reported 2 per cent or more. Some of the details are given in the table on the next page.

Transfers to valuation reserves on loans have been quite substantial following a ruling by the Bureau of Internal Revenue in December 1947. Under this ruling, within limits set forth by the Bureau, banks can deduct transfers to reserves for bad debt losses in determining income subject to tax. Net transfers to these or other valuation reserves on loans by member banks in this District totaled \$12 million in 1948 and averaged about \$10 million in the four following years. Unless the ruling is changed by the

MEMBER BANKS April 20, 1953 Third Fed. Res. District	Total number of member banks	Number of member banks reporting valuation reserves on loans				
		Total	% of reserves to total loans			
			Under 1%	1% to 1.9%	2% to 2.9%	3% or more
Banks with loans of—						
Under \$½ million.....	91	13	5	3	3	2
\$½ to \$1 million.....	129	43	10	21	8	4
\$1 to \$2 million.....	187	120	50	42	19	9
\$2 to \$5 million.....	138	100	36	33	23	8
\$5 to \$10 million.....	37	34	11	9	8	6
\$10 to \$20 million.....	20	19	5	8	4	2
Over \$20 million.....	16	15	2	6	6	1
Total .....	618	344	119	122	71	32

Bureau or losses increase, transfers to reserves for bad debt losses are likely to decline. Numerous banks doubtless have reached or are approaching the maximum reserve which they may accumulate through deductions from taxable

income; and the 20-year moving-average loss factor used in computing the maximum is including fewer and fewer years of substantial losses, which were particularly heavy early in the 1930s.

## CURRENT TRENDS

The *pace* is changing but the *direction* is the same. This is what some of the major indicators of business activity seem to be saying of the trend of developments in the current quarter. Industrial production, for example, is leveling off on a high plateau. Employment and income gains have been less impressive lately. And there is that less tangible bit of evidence which businessmen speak of—the increasing competition in the market for all goods and services. As we talk with businessmen, we are assured that business is good but it takes more effort to get it. This is their recurring theme.

### Underlying strength still there

In the past three issues of the *Business Review*, we have taken a look at several critical sectors

of the economy which have been causing some anxiety on the part of businessmen. We have supplemented available statistics by interviewing representative men active in these fields in this Federal Reserve District. When we looked at inventories, we saw that dollar-wise they were at an all-time high. But they were not growing top-heavy in relation to sales. Operations in the construction industry were continuing at levels unheard of a few years ago. Even so, new industrial and commercial space was being absorbed and houses were not backing up on builders, despite the high rate of starts. Automobiles have been coming off assembly lines in record and near-record numbers, yet the dealers have told us that new cars were selling well. Business expenditures for productive facilities have been

another basic source of strength in our economy. Surveys made both at national and local levels have indicated that these outlays were scheduled to rise to new peaks this year. A spot check of our own earlier findings discloses that the spending programs of manufacturers in the Philadelphia industrial area are progressing about in line with expectations.

### **Capital spending high for civilian needs**

Business investment in new plant and equipment became an expansionary force in our economy quite soon after World War II. At the very least, it promises to be a sustaining force over most of 1953. Reconversion to civilian goods output initiated the movement in 1946. Rearmament needs set the pattern—and largely determined the scale of outlays—in the two years following the outbreak of war in Korea. Since last fall, however, the program for enlarged defense facilities has been tapering and civilian goods industries once again are “carrying the ball.” As might be expected, emphasis too has shifted from outright expansion to modernization programs. This is especially apparent in the area of manufacturers’ outlays. It is a healthy development, indicative of a growing awareness of the need to produce more efficiently in an increasingly competitive market. Straightaway expansion programs this year center in the utilities field, where companies still are under pressure to provide increased services for both old and new customers.

### **Program increases at national and local levels**

Another year of very high business spending appears likely in the country as a whole, on the basis of estimated capital outlays published this spring by the Department of Commerce and the

Securities and Exchange Commission. At that time, manufacturing, mining, service, and mercantile industries indicated they planned to spend a record total of \$27 billion on plant and equipment, compared with the 1952 figure of \$26.5 billion. In manufacturing and mercantile lines, expenditures were expected to continue at last year’s rate. Mining companies and transportation concerns, other than railroads, planned to spend a little more. The nation’s railroads indicated a substantial cutback in their 1953 programs. But the public utilities, with very heavy outlays in 1952, anticipated a further sharp rise in capital investments during the current year.

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### **REVISION OF CONSUMER CREDIT STATISTICS**

The Federal Reserve System has just completed a thorough revision of the monthly consumer credit statistics. The revision included a complete review of the conceptual framework upon which the figures are based as well as improvements in the figures themselves and in the method of presentation.

The new data measure the amount of short- and intermediate-term indebtedness of individuals as consumers. They are made available by type of credit and by institutional holders in a way that permits the user to make various combinations to fit specific purposes.

A complete description of the revision, and revised estimates from December 1939 to date, are published in the April 1953 issue of the *Federal Reserve Bulletin*. A reprint of this article may be obtained free of charge by writing to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C.

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Our own survey of capital expenditures covering manufacturers in the Philadelphia industrial area was conducted last fall. It indicated that almost \$287 million would be spent in the year ending August 1953, compared with about \$275 million in the preceding twelve months. Spending programs leaned very heavily toward equipment purchases, with emphasis on the replacement of worn-out and obsolete tools. Over half of the firms responding to our inquiries told us these expenditures might result in some increases in productive capacity and that they might involve a gradual rise in employment as the programs progressed.

**A spot check of recent trends  
in actual expenditures**

Even the well-laid plans of a capital investment program could have changed sharply in the period since the Philadelphia area survey was completed. To be sure, a significant change in the business climate would have immediate repercussions on plans for business spending. And then there is the matter of interest rates—the factor which determines how much it costs to borrow money for whatever the purpose. Lately, comments in the press have indicated that the rising trend of interest rates has caused some companies to seek other means of financing, rather than to reduce their spending programs or defer outlays to a later date. Circulating reports of this nature have prompted us to spot check the spending plans of manufacturing firms in our own industrial area. The answers to our inquiries, covering a cross section of the companies that responded to our original questionnaire, suggest that capital spending programs here are not being curtailed. Many of those interviewed, however, said that outlays in 1954 might very likely be influenced by the continu-

ance of a tight money market.

**Some companies spending more**

"Our original estimate was too low." "This year's program was completed ahead of schedule; we have started on a new one." "We are spending more than we had planned." These are typical replies from concerns in iron and steel, industrial chemicals, and the paper business. In one or two cases these expressions applied to money being spent on plant expansion. For the most part the company spokesman was referring to outlays for new equipment with which to modernize productive facilities or replace machinery and tools so nearly worn out that repairs were not worth the cost. With one company it is interesting to note why equipment costs exceeded earlier expectations. Deliveries of American-made machine tools were too slow; consequently a foreign source was sought, and this equipment proved to be more up to date—but more expensive.

**Most capital outlays about as programmed**

The large majority of local manufacturers reported: "Expenditures are proceeding on schedule." This reference to a capital investment program conceived nearly a year ago reflects both an accurate appraisal of future needs and a high degree of confidence in the business situation as it exists today. For the companies to which this comment pertained, the expenditure ratio of equipment to new construction was about 5 to 1. Where outlays for plant were involved, alterations rather than new construction were the major objective of spending. In this group of firms there also were reports of slow deliveries on machine tools, indicating that had the equipment been available spending might have proceeded somewhat ahead of schedule.

### Spending lags with a few firms

In most cases, where a company advised us that its spending program lagged, the current strike of construction workers was to blame, or it was the oft-repeated remark that machinery and tools were arriving away behind their original delivery dates. Neither the current business situation nor the tight money market appeared to have anything to do with the failure of a firm to make capital outlays as fast as had been expected when the program was initiated. The temporary nature of the factors responsible for this lag in business spending and the small minority of firms so affected point up the underlying strength still present in this important area of the economy.

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### ANNUAL REPORT

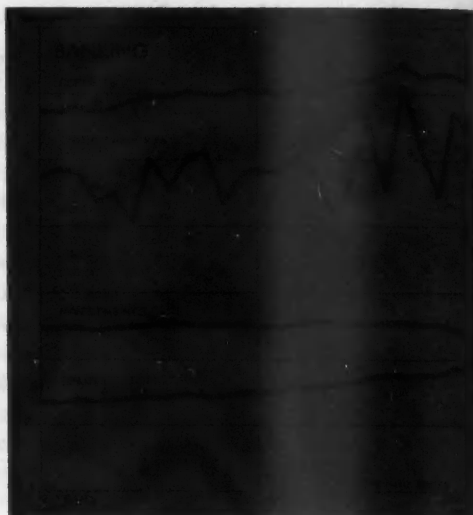
Copies of this Bank's Annual Report for 1952, featuring a discussion of "Free Markets and Flexible Interest Rates," are now available and may be obtained by writing to the Research Department, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pa.

In addition to a review of business and banking and a summary of the Bank's operations during the year, the Report includes an analysis of Federal Reserve Bank lending to member banks and a discussion of Federal Reserve Bank lending policy.

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*Additional copies of this issue are available  
upon request to the Department of Research,  
Federal Reserve Bank of Philadelphia,  
Philadelphia 1, Pa.*

# FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	April 1953 from		4 mos. 1953 from year ago	April 1953 from		4 mos. 1953 from year ago
	mo. ago	year ago		mo. ago	year ago	
<b>OUTPUT</b>						
Manufacturing production...	-1*	+7*	+4*	0	+13	+11
Construction contracts†	-2	+9	+41	+14	+5	+10
Coal mining	-12	-35	-26	+3	-10	-17
<b>EMPLOYMENT AND INCOME</b>						
Factory employment	0*	+5*	+3*	-1	+7	+6
Factory wage income	-1*	+16*	+12*			
<b>TRADE**</b>						
Department store sales	-4	+6	+3	-5	+4	+4
Department store stocks	+2	+3		+4	+9	
<b>BANKING</b>						
(All member banks)						
Deposits	-2	+2	+4	-2	+2	+4
Loans	-1	+13	+13	0	+12	+12
Investments	-1	-3	-1	-2	-2	0
U.S. Govt. securities	-2	-4	-2	-3	-4	-1
Other	+1	+1	+1	0	+5	+6
Check payments	-5‡	+10‡	+8‡	-51	+9	+8
<b>PRICES</b>						
Wholesale				-1	-2	-2
Consumer	0†	+1†	+1†	0	+1	+1
<b>LOCAL CHANGES</b>						
	Factory*		Department Store		Check Payments	
	Employment	Payrolls	Sales	Stocks		
	Per cent change April 1953 from	Per cent change April 1953 from	Per cent change April 1953 from	Per cent change April 1953 from	Per cent change April 1953 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown...	0	+2	-2	+10		-3 +8
Harrisburg...	-2	+5	-3	+12		-4 +11
Lancaster...	-1	+5	0	+15	-24	-6 +7 +4 -5 -1
Philadelphia...	0	+8	-1	+17	-3	0 +4 +1 -4 +12
Reading...	-1	+5	-1	+23	-3	+1 +9 +8 -4 +16
Scranton...	0	+7	-2	+20		-8 +8
Trenton...	0	+9	0	+25	+7 +3 +13	+14 -10 -18
Wilkes-Barre...	-3	+1	-7	+10	-5	-3 +1 +3 -9 +6
Wilmington...	+1	+8	+5	+21	+11	-6 +4 +4 -15 +9
York...	-1	+6	-2	+24	-2	+5 -2 +8 -3 +27

\*Pennsylvania †Philadelphia ‡20 Cities

\*\*Adjusted for seasonal variation. ‡Based on 3-month moving averages.

\*Not restricted to corporate limits of cities but covers areas of one or more counties.

# UNIFORM COMMERCIAL CODE

A Major Step in the Evolution of Commercial Practices

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SUPPLEMENT TO **BUSINESS REVIEW** JUNE 1953

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FEDERAL RESERVE BANK OF PHILADELPHIA

# UNIFORM COMMERCIAL CODE

## *A Major Step in the Evolution of Commercial Practices*



July 1, 1954, will mark a milestone in the evolution of the conduct of commerce and banking in Pennsylvania. On that day a statute widely publicized during its formative period as the Uniform Commercial Code will become effective. When contrasted with practices familiar to bankers and businessmen, the statute might almost be termed a revolution—a *step in evolution*. Viewed more broadly, it is possible that the Code may take its place in the line of succession beginning with the Code of Hammurabi and including the commercial code of the Phoenicians, Roman maritime practices and the Napoleonic Code. This wider significance is possible because the sponsors intend that it be enacted in all forty-eight states and because of the leading position today of this country in international commerce. Pennsylvania, as the first state to have adopted the Code, has achieved a position of leadership in the evolutionary process.

The new statute was conceived by the joint action of the Commissioners on Uniform State Laws and the American Law Institute in 1944. Its formulation since that date has been the subject of intensive study, discussion and debate, sometimes bordering on the acrimonious. While it has necessarily been drafted by attorneys, it represents the research, views, criticism, suggestions and modern commercial practices of law-

yers, teachers, merchants, industrialists and bankers.

### **Need for uniformity**

It has been recognized for some time that the older concepts of common law, based in many instances upon commercial practices developed during the middle ages and the statutory attempts to clarify the situation, have not kept pace with the requirements of business and industrial progress in this atomic and electronic age. Too often application of the philosophy of the Statute of Elizabeth, prohibiting "secret liens," has vitiated a transaction to which modern businessmen would give their approval. The Code is an attempt to rectify this situation by recognizing modern developments in sales transactions, warehouse receipts, bills of lading, stock transfers, negotiable instruments, investment securities, bank deposits and letters of credit. It re-enacts many of the familiar rules, amends others and codifies new ones. Approximately 25 per cent of the Uniform Commercial Code is devoted to Article 4 on "Bank Deposits and Collections" and Article 9 on "Secured Transactions," both of great importance to banking. This brief discussion is designed to indicate the impact of these two articles on banking and business. It is not a summary or outline of the provisions of the articles.

## BANK DEPOSITS AND COLLECTIONS

Article 4 of the Uniform Commercial Code is a statement of the principal rules now governing bank collection processes, with ample provision for flexibility to meet the needs of the increasing volume and other changes that are bound to come with the years. It affects the rights of banks, owners and other parties to "items" which enter bank collection channels. Items are defined as instruments for the payment of money even though not negotiable. Questions as to the negotiability of the items, endorsements, and the like are covered by Article 3 on "Commercial Paper," but in the event of conflict, Article 4 governs. Many of the principles and rules of the Bank Collection Code, Deferred Posting and other statutes are retained, and Article 4 should not adversely affect bank collection practices and procedures.

Flexibility in the bank collection process is made possible by permitting the effect of Article 4 to be varied by agreement, although a bank cannot, of course, disclaim its responsibility for its own lack of good faith or failure to exercise ordinary care. Thus, Federal Reserve regulations and operating circulars, clearing house rules, and similar official or quasi-official rules may, standing by themselves, vary the effect of the provisions of Article 4, whether or not specifically assented to by all parties interested in the items handled. The owner and depository bank may enter into agreements of a more limited effect with respect to a single item or to all items handled for a particular customer.

The terms used in Article 4 are defined but most of the definitions do not contain novel ideas. A few do have specialized meanings, e.g., "midnight deadline" with respect to a bank is midnight on the banking day next following the banking day on which it receives the item or notice; "afternoon" means the period of a day between noon and midnight.

Article 4 retains the rule that a collecting bank, although responsible for the selection of a proper subsequent collecting bank, is not liable for lack of ordinary care on their part. The "chain of command" theory of bank collection which authorizes a collecting bank to follow only the instructions of the immediate forwarding bank, is also adopted.

Deferred posting rules are continued. If the payor bank has settled for the item on the banking day of receipt, it may revoke settlement and recover the payment if it returns the item by its "midnight deadline."

### Some changes and new principles

Some changes in existing law and new principles established by Article 4 include:

Items on banks in the same city may be presented by mail. The practice of express and truck presentment of checks is also permitted.

Restrictive endorsements as such have been eliminated. Any agreed method which identifies the transferring bank is sufficient in transfers of items between banks. This would permit bank endorsements to be merely transit numbers. This is designed to expedite the handling of checks and reduce overlapping bank stamps. Depository banks may supply missing customer endorsements unless that endorsement is specifically required.

Unpaid items may be returned directly to the first endorsing bank unless specifically directed otherwise.

Written stop-payment orders and renewals are effective for only six months. A bank paying a check over a stop-payment order is entitled to subrogation even against the payee to prevent unjust enrichment. The burden of proof of loss is placed on the customer.

Regarding stale checks a bank is not obligated to pay a check, other than a certified check, which is more than six months old. On the other hand, a bank may pay checks for ten days after the death of the customer unless someone interested in the account stops payment.

Unauthorized signatures or alterations must be reported by the customer within one year, and unauthorized endorsements within three years, in order to constitute a basis for action against the bank.

The time of final payment of an item by the payor bank is deemed to be the time when it had paid the item in cash or had completed the posting process, whichever happened first.

The principal benefit of Article 4 is the removal of some uncertainties and ambiguities in the statutory and decisional law of Pennsylvania on bank deposits and collections.

### SECURED TRANSACTIONS

The Code departs most drastically from earlier legal requirements and procedure in the field which Article 9 calls "Secured Transactions." The familiar statutes relating to trust receipts, factors' liens, chattel mortgages, conditional sales and pledges of accounts receivable are repealed effective July 1, 1954 and their purposes will be covered by Article 9. This section of the statute has been the subject of more attention and discussion than any other part. It may cause dismay to many. It may cause confusion. For this reason advance study prior to the effective date of the statute is urged not only by attorneys but by bankers and businessmen. However, once past that initial period, business and banking will have more exact knowledge of the requirements, which should provide a measure of security not heretofore enjoyed.

The Code provides a new concept of collateral and security, which it designates as "security interest." A secured creditor will hold a "security interest" in place of the pledge, assignment, chattel mortgage, factors' lien, equipment trust, conditional sale, bailment lease or trust receipt which he once held in his safe. The "bundle of sticks" which once added up to a "title" is no longer significant in determining whether a creditor holds security. The protection of the "security interest" will depend on the nature of the transaction and the type of property and not the form of the security instrument. Even consignment transactions, under which a seller purports to retain "title" as security until receipt of the purchase price, are affected. A new vocabulary is provided for businessmen, including such terms as "perfection," "consumer goods," "purchase money security interest," "security agreement," and "chattel paper." Established words are given new meanings; e.g., a "purchaser" now includes the recipient of a gift; a "telegram" includes a message transmitted by radio or teletype.

### Types of transactions and property affected

Article 9 provides one general scheme of administering and determining the rights of debtors and secured creditors. In brief, the Article applies to *all* types of security transactions and to all types of property or property interests which might be involved with certain exceptions, such as landlords' liens and real estate liens.

It is the application of the Code to particular facts which may cause difficulty since particular types of property and transactions are subjected to different rules. Special rules are provided for cases where the collateral consists of growing crops, future plantings, livestock and their progeny, oil, gas and minerals. The Act departs from its primary purpose of covering security transactions in requiring that *sales* of accounts

receivable, chattel paper and contract rights conform to the Act in order to be effective for all purposes, with certain exceptions.

The Code applies to all personal property located within the State at the time of the transaction. Special rules state that accounts receivable or contract rights are located within the State wherein the assignor maintains his records concerning them, and the validity and effect of the transaction will be governed by the law of that State. A transaction which concerns motor vehicles, rolling stock, airplanes and other equipment normally used in more than one jurisdiction is governed by the law of the State in which the debtor maintains his principal place of business. The validity of a security interest in goods brought into the State is determined by the law of the State where the property was located when the transaction was made, and that interest continues for four months during which time arrangements to comply with Pennsylvania requirements must be completed.

#### **Methods of obtaining "security interest"**

Two methods of creating a security interest are:

- (a) The making of an oral agreement and delivery of possession to the creditor.

Delivery or retention of possession of "goods" by the creditor eliminates the necessity of a written agreement or of the filing usually required under the Act. Only by obtaining possession may a creditor acquire an effective security interest in documents of title or instruments.

- (b) Execution of a written agreement which describes the collateral and the real estate in the event that the goods are to be attached thereto or extracted from the land as in the case of crops, oil, gas or minerals. This agreement is known as the "security agreement." Filing is usually required.

#### **Filing**

Filing constitutes the recording of a "financing statement" signed by both parties giving their addresses and describing the property which is the subject of the security interest. A signed copy of the "security agreement" is sufficient for filing if it complies with these requirements. A central place of filing is provided for in the Office of the Secretary of the Commonwealth and if all of the places of business of the debtor are in a single county, a second filing must be made in the Office of the Prothonotary of the county. Local filing in the Office of the Prothonotary of the county where the debtor resides is required if the collateral is consumer goods, farm equipment, farm products or accounts receivable from the sale of farm products by a farmer.

Practical considerations will dictate filing in most instances due to the impracticability, for instance, of a bank holding in its vaults coal or contracting equipment needed for operations, raw wool acquired for processing or shoes intended for sale. Thus, the traditional "field warehousing" by which the debtor leased part of his premises to the creditor on which the collateral, identified by signs, was stored in the custody of a representative of the creditor will not be effective without filing.

Even filing in accordance with the provisions of the Act does not afford complete protection in certain instances where the circumstances of the case have seemed to the draftsmen not to justify absolute protection. For example, a creditor whose security is the debtor's inventory held for sale must from the very nature of his security intend that a buyer obtain good title. Similarly, where the agreement gives the secured creditor a lien on the proceeds to be received from the sale of the collateral, it is implied that the creditor intends that the debtor have the power to give a buyer good title. Chattel paper

has some of the qualities of a negotiable instrument, and the purchaser of such paper, of which possession was not taken by the secured creditor, obtains good title unless he has actual knowledge of an earlier interest.

Instances where possession is not obtained and filing is not required include:

- (a) Purchase money security interests in consumer goods which are not licensed motor vehicles or not attached to real estate.
- (b) Purchase money security interests in farm equipment not exceeding \$2,500 and which is not a licensed motor vehicle or attached to real estate.
- (c) The assignment of an interest already perfected or of an interest already filed or registered pursuant to another statute, such as the endorsement of a lien on the title certificate to a motor vehicle.

Only the filing of a "financing statement" will absolutely protect the interests of the secured creditor against *buyers* without knowledge of that interest in consumer goods and farm equipment which costs less than \$2,500.

#### **Special problems in drafting "security agreements"**

In documenting their transaction, creditors will be faced with the problem of whether and in what respect the "security agreement" and the "financing statement" should deal with the following factors. Failure to consider them may have substantial effect upon the rights of the parties.

- (a) Whether the proceeds of the original collateral are to be subject to the lien.
- (b) Whether the debtor has the right to commingle the collateral with other goods of the same character.

- (c) What events of default are to be specified.
- (d) Whether the assignee of accounts receivable may require payment by the debtors on the accounts receivable before default.
- (e) Whether subsequent advances are to be secured by the same collateral.
- (f) Whether property subsequently acquired by the debtor is to be added to the original collateral.

Questions such as these are of such importance that they require careful consideration by both parties to the transaction. Otherwise, a substantive right, which might have been protected and which the parties would agree was intended if it had been considered, may be lost.

#### **Remedies on default**

Part 5 of Article 9 is devoted to the rights of the debtor and secured creditor in the event of default. The nature of the remedies listed is not unique and includes the right to proceed to judgment, foreclose, take possession, sell and recover a deficiency including expenses of repossession, storage and sale, cost of insurance and taxes. The creditor is accountable to the debtor for any surplus. The general rule is that disposition of collateral must be commercially reasonable either at public or private sale, usually with notice to the debtor. The secured party may usually purchase at the sale.

#### **Conflicting rights of creditors in same collateral**

Heretofore parties and courts have been plagued with questions requiring determination of conflicting rights in the same collateral. The Code attempts in a comprehensive manner to resolve those differences by enumerating the respective rights of those parties. For instance, suppose the buyer borrows from a bank to pay for goods

and agrees to give the bank a security interest in them. Instead of devoting the amount of the loan to the purchase, he buys on credit from the seller who retains a security interest in the goods to secure the purchase price. The Code extends superior rights to the seller of the goods on the theory that the bank should have assured itself that the amount of its loan was paid to the seller in satisfaction of his claim.

### **Additional flexibility afforded creditors**

Article 9 defines more clearly than heretofore the rights of those engaging in commercial transactions. It provides greater flexibility in arranging secured credit than has ever been possible in Pennsylvania. Subsequent advances by the creditor may now also be secured by the original collateral. It is also possible to provide that property subsequently acquired by a debtor will automatically secure the original loan. The original security interest continues in collateral sold by a debtor unless the purchaser acquires good title under the circumstances described above. In the event of any sale by the debtor, the security interest continues in the proceeds of the sale, such as cash, checks, notes, chattel paper and accounts receivable; and that interest is not invalidated because the creditor has permitted such disposition of the original collateral by the debtor, including the use of cash proceeds without requiring an accounting. Secured creditors are therefore liberated from the restrictions of the rule of *Benedict vs. Ratner* which has plagued both borrower and lender since 1925.

By the determination of what the "security agreement" and "financing statement" shall contain, the secured creditor may now obtain what is sometimes called a "floating lien." With one agreement and one filing a lender who is initially secured by raw material may automatically

transfer that lien to a pile of fungible goods, to the work in process being created from that pile, to the finished goods held in inventory, to the accounts receivable or chattel paper resulting from their sale and the cash proceeds of those accounts. When to this situation is added the right to substitute new raw material for that originally pledged or for the proceeds of the original raw material, it is readily apparent how much more flexibility is provided by the Code, particularly if subsequent advances are also to be secured. The creditor may now have as collateral a "revolving security" consisting of the product at each stage of the manufacturing process of the goods, the proceeds received on their sale and the replenishment stock of the original raw material or inventory.

If we also consider that the buyer of goods, who makes an advance for the purpose of enabling the manufacturer to complete the order, may also have a security interest in the goods as soon as they are identified to the contract, the extent of the protection afforded by the Code in normal business transactions is apparent.

### **NEED FOR STUDY**

In a short description of this nature it is not possible to consider every ramification. This description is only suggestive of what Articles 4 and 9 of the Code are intended to accomplish and their import to banking and business. The complexities of situations which will arise are such that these general statements should not be accepted as legally definitive of rights and obligations. If this article is provocative of study by bankers, businessmen and their attorneys, it will have accomplished its purpose and much needless litigation and disputes between merchants or between banks and their customers will have been avoided.

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